

CITY OF RILEY, KANSAS

FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

VONFELDT, BAUER & VONFELDT, CHTD.

Certified Public Accountants

Manhattan, Kansas 66502

CITY OF RILEY, KANSAS

Financial Statements
For the Year Ended December 31, 2011

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VONFELDT, BAUER & VONFELDT, CHTD.

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Riley, Kansas

We have audited the accompanying financial statements of the City of Riley, Kansas, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the City of Riley, Kansas' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the guidance in the Kansas Municipal Audit Guide. Those standards and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed more fully in Note 1, the City has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Riley, Kansas as of December 31, 2011, the changes in its financial position, or where applicable, its cash flows for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City of Riley, Kansas, as of December 31, 2011 and its cash receipts and expenditures, and budget to actual comparisons for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

VonFeldt, Bauer & VonFeldt, Chtd.

VONFELDT, BAUER & VONFELDT, CHTD.
Certified Public Accountants

June 15, 2012

CITY OF RILEY, KANSAS
Summary of Cash Receipts, Expenditures and Unencumbered Cash
For the Year Ended December 31, 2011

<u>Funds</u>	<u>Beginning Unencumbered Cash Balance</u>	<u>Prior Year Cancelled Encumbrances</u>
Governmental Type Funds:		
General Fund	\$ 224,571.68	\$ 0.00
Special Revenue Funds:		
Special Highway Fund	30,078.69	0.00
Library Fund	1,301.40	0.00
Library Capital Improvement Fund	0.00	0.00
Debt Service Fund:		
Bond & Interest Fund	8,447.34	0.00
Capital Projects Fund:		
Bergsten Development	22,871.18	0.00
Fox Run Development	4,813.26	0.00
Kansas Public Water Supply Loan Fund	(82,544.18)	0.00
Kansas Small Towns Environment Program Fund	0.00	0.00
Proprietary Type Funds:		
Enterprise Funds:		
Water Utility Fund	180,707.74	0.00
Water System Maintenance & Replacement	<u>21,000.00</u>	<u>0.00</u>
Total Reporting Entity (Memorandum Only)	<u>\$ 411,247.11</u>	<u>\$ 0.00</u>

The notes to the financial statements are an integral part of this statement.

<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending Unencumbered Cash Balance</u>	<u>Encumbrances and Accounts Payable</u>	<u>Ending Cash Balance</u>
\$ 438,150.30	\$ 421,712.02	\$ 241,009.96	\$ 2,450.05	\$ 243,460.01
27,608.47	16,589.69	41,097.47	0.00	41,097.47
12,101.38	12,355.59	1,047.19	50.87	1,098.06
1,400.00	0.00	1,400.00	0.00	1,400.00
154,737.34	131,564.10	31,620.58	0.00	31,620.58
0.00	22,871.18	0.00	0.00	0.00
0.00	0.00	4,813.26	0.00	4,813.26
208,029.72	125,438.60	46.94	0.00	46.94
78,964.00	73,911.57	5,052.43	0.00	5,052.43
324,833.70	313,080.73	192,460.71	12,225.00	204,685.71
<u>4,200.00</u>	<u>0.00</u>	<u>25,200.00</u>	<u>0.00</u>	<u>25,200.00</u>
<u>\$ 1,250,024.91</u>	<u>\$ 1,117,523.48</u>	<u>\$ 543,748.54</u>	<u>\$ 14,725.92</u>	<u>\$ 558,474.46</u>

CITY OF RILEY, KANSAS
Summary of Cash Receipts, Expenditures and Unencumbered Cash
For the Year Ended December 31, 2011

Balance to be Accounted for:	<u>\$ 558,474.46</u>
Composition of Cash:	
City Accounts:	
Checking Account-Riley State Bank, Riley, KS	\$ 579,610.91
Less Outstanding Checks	(30,107.58)
Add Outstanding Deposits	1,400.00
Checking Account-Riley State Bank, Riley, KS	11,068.50
Less Outstanding Checks	(6,016.07)
Checking Account-Riley State Bank, Riley, KS	82.64
Checking Account-Riley State Bank, Riley, KS	46.94
Checking Account-Riley State Bank, Riley, KS	<u>2,389.12</u>
Total Reporting Entity	<u>\$ 558,474.46</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RILEY, KANSAS
Summary of Expenditures - Actual and Budget
(Budgeted Funds Only)
For the Year Ended December 31, 2011

Funds	Certified Budget	Adjustment for Qualifying Budget Credits
Governmental Type Funds:		
General Fund	\$ 583,970.00	\$ 0.00
Special Revenue Funds:		
Special Highway Fund	59,280.00	0.00
Library Fund	13,900.00	0.00
Library Capital Improvement Fund	0.00	0.00
Debt Service Fund:		
Bond & Interest Fund	154,516.00	0.00
Proprietary Type Funds:		
Enterprise Funds:		
Water Utility Fund	409,200.00	0.00
Water System Maintenance & Replacement	25,200.00	0.00

The notes to the financial statements are an integral part of this statement.

<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance - Over (Under)</u>
\$ 583,970.00	\$ 421,712.02	\$ (162,257.98)
59,280.00	16,589.69	(42,690.31)
13,900.00	12,355.59	(1,544.41)
0.00	0.00	0.00
154,516.00	131,564.10	(22,951.90)
409,200.00	313,080.73	(96,119.27)
25,200.00	0.00	(25,200.00)

CITY OF RILEY, KANSAS
GENERAL FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		
	Actual	Budget	Variance Over (Under)
Cash Receipts			
Taxes and Shared Revenue:			
Ad Valorem Property Tax	\$ 164,469.77	\$ 169,025.00	\$ (4,555.23)
Delinquent Tax	4,674.40	0.00	4,674.40
Motor Vehicle Tax	20,993.39	22,979.00	(1,985.61)
Recreational Vehicle Tax	372.78	385.00	(12.22)
16/20 M Vehicle Tax	286.32	389.00	(102.68)
Intangibles Tax	(2,539.14)	0.00	(2,539.14)
Sales Tax	141,612.70	143,000.00	(1,387.30)
Local Compensating Tax	16,243.31	14,250.00	1,993.31
Franchise Tax	55,760.20	34,000.00	21,760.20
Licenses and Permits	545.00	1,250.00	(705.00)
Proceeds from Sale of Asset	0.00	750.00	(750.00)
Miscellaneous	15,776.57	8,900.00	6,876.57
Interest on Idle Funds	1,241.07	1,550.00	(308.93)
Insurance Proceeds	4,414.53	0.00	4,414.53
Swimming Pool	14,299.40	14,200.00	99.40
Total Cash Receipts	<u>438,150.30</u>	<u>\$ 410,678.00</u>	<u>\$ 27,472.30</u>
Expenditures			
Administration	328,027.30	389,320.00	(61,292.70)
Fire Department	41,805.94	107,500.00	(65,694.06)
Streets	5,340.00	25,150.00	(19,810.00)
Street Lighting	0.00	1,000.00	(1,000.00)
Park	3,164.71	15,000.00	(11,835.29)
Swimming Pool	43,374.07	46,000.00	(2,625.93)
Total Expenditures	<u>421,712.02</u>	<u>\$ 583,970.00</u>	<u>\$ (162,257.98)</u>
Receipts Over (Under) Expenditures	16,438.28		
Unencumbered Cash, Beginning	<u>224,571.68</u>		
Unencumbered Cash, Ending	<u>\$ 241,009.96</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF RILEY, KANSAS
SPECIAL HIGHWAY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		
	Actual	Budget	Variance Over (Under)
Cash Receipts			
State Payments	\$ 25,038.16	\$ 28,020.00	\$ (2,981.84)
City & County Payments	2,114.38	2,270.00	(155.62)
Rock & Sand	0.00	1,500.00	(1,500.00)
City/County Highway	0.00	2,000.00	(2,000.00)
Miscellaneous	455.93	0.00	455.93
Total Cash Receipts	<u>27,608.47</u>	<u>\$ 33,790.00</u>	<u>\$ (6,181.53)</u>
Expenditures			
Commodities	1,950.64	17,500.00	(15,549.36)
Rock & Sand	1,598.34	0.00	1,598.34
Repairs & Maintenance	21.21	0.00	21.21
Street	13,019.50	0.00	13,019.50
Capital Outlay	0.00	41,780.00	(41,780.00)
Total Expenditures	<u>16,589.69</u>	<u>\$ 59,280.00</u>	<u>\$ (42,690.31)</u>
Receipts Over (Under) Expenditures	11,018.78		
Unencumbered Cash, Beginning	<u>30,078.69</u>		
Unencumbered Cash, Ending	<u>\$ 41,097.47</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF RILEY, KANSAS
LIBRARY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		
	Actual	Budget	Variance Over (Under)
Cash Receipts			
Taxes and Shared Revenue:			
Ad Valorem Tax	\$ 9,523.65	\$ 9,787.00	\$ (263.35)
Delinquent Tax	302.27	0.00	302.27
Motor Vehicle Tax	1,406.41	1,521.00	(114.59)
Recreational Vehicle Tax	24.99	25.00	(0.01)
16/20 Motor Vehicle Tax	20.49	26.00	(5.51)
State Aid	482.00	0.00	482.00
Miscellaneous	341.57	0.00	341.57
Total Cash Receipts	<u>12,101.38</u>	<u>\$ 11,359.00</u>	<u>\$ 742.38</u>
Expenditures			
Commodities	2,952.72	5,500.00	(2,547.28)
Personal Services	8,002.87	8,400.00	(397.13)
Transfer to Library Capital Improvement	<u>1,400.00</u>	<u>0.00</u>	<u>1,400.00</u>
Total Expenditures	<u>12,355.59</u>	<u>\$ 13,900.00</u>	<u>\$ (1,544.41)</u>
Receipts Over (Under) Expenditures	(254.21)		
Unencumbered Cash, Beginning	<u>1,301.40</u>		
Unencumbered Cash, Ending	<u>\$ 1,047.19</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF RILEY, KANSAS
LIBRARY CAPITAL IMPROVEMENT FUND
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2011

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Transfer from Library Fund	\$ 1,400.00	\$ 0.00	\$ 1,400.00
Total Cash Receipts	<u>1,400.00</u>	<u>0.00</u>	<u>0.00</u>
Expenditures			
None	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Expenditures	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Receipts Over (Under) Expenditures	1,400.00		
Unencumbered Cash, Beginning	<u>0.00</u>		
Unencumbered Cash, Ending	<u>\$ 1,400.00</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF RILEY, KANSAS
BOND AND INTEREST FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		
	Actual	Budget	Variance Over (Under)
Cash Receipts			
Special Assessments	\$ 20,362.81	\$ 36,500.00	\$ (16,137.19)
Transfer from Water Utility	111,503.35	117,588.00	(6,084.65)
Transfer from Bergsten Development	22,871.18	0.00	22,871.18
Total Cash Receipts	<u>154,737.34</u>	<u>\$ 154,088.00</u>	<u>\$ 649.34</u>
Expenditures			
Principal	11,000.00	11,000.00	0.00
Interest	9,059.50	9,060.00	(0.50)
KDHE Loan-Principal	66,617.00	30,746.00	35,871.00
KDHE Loan-Interest	44,886.35	14,756.00	30,130.35
Miscellaneous	1.25	0.00	1.25
Kansas Water Supply Loan	0.00	71,570.00	(71,570.00)
Cash Basis Reserve	0.00	17,384.00	(17,384.00)
Total Expenditures	<u>131,564.10</u>	<u>\$ 154,516.00</u>	<u>\$ (22,951.90)</u>
Receipts Over (Under) Expenditures	23,173.24		
Unencumbered Cash, Beginning	<u>8,447.34</u>		
Unencumbered Cash, Ending	<u>\$ 31,620.58</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF RILEY, KANSAS
BERGSTEN DEVELOPMENT FUND
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2011

	<u>Actual</u>
Cash Receipts	
None	<u>\$ 0.00</u>
Total Cash Receipts	<u> 0.00</u>
Expenditures	
Transfer to Bond and Interest Fund	<u> 22,871.18</u>
Total Expenditures	<u> 22,871.18</u>
Receipts Over (Under) Expenditures	<u> (22,871.18)</u>
Unencumbered Cash, Beginning	<u> 22,871.18</u>
Unencumbered Cash, Ending	<u><u>\$ 0.00</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF RILEY, KANSAS
FOX RUN DEVELOPMENT
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2011

	<u>Actual</u>
Cash Receipts	
None	<u>\$ 0.00</u>
Total Cash Receipts	<u>0.00</u>
Expenditures	
None	<u>0.00</u>
Total Expenditures	<u>0.00</u>
Receipts Over (Under) Expenditures	0.00
Unencumbered Cash, Beginning	<u>4,813.26</u>
Unencumbered Cash, Ending	<u>\$ 4,813.26</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RILEY, KANSAS
KANSAS PUBLIC WATER SUPPLY LOAN FUND
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2011

	<u>Actual</u>
Cash Receipts	
Kansas Water Supply Loan	<u>\$ 208,029.72</u>
Total Cash Receipts	<u>208,029.72</u>
Expenditures	
Capital Outlay	<u>125,438.60</u>
Total Expenditures	<u>125,438.60</u>
Receipts Over (Under) Expenditures	82,591.12
Unencumbered Cash, Beginning	<u>(82,544.18)</u>
Unencumbered Cash, Ending	<u>\$ 46.94</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RILEY, KANSAS
KANSAS SMALL TOWNS ENVIRONMENT PROGRAM
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2011

	<u>Actual</u>
Cash Receipts	
Federal Aid	<u>\$ 78,964.00</u>
Total Cash Receipts	<u>78,964.00</u>
Expenditures	
Contractual	43,240.00
Commodities	<u>30,671.57</u>
Total Expenditures	<u>73,911.57</u>
Receipts Over (Under) Expenditures	5,052.43
Unencumbered Cash, Beginning	<u>0.00</u>
Unencumbered Cash, Ending	<u>\$ 5,052.43</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RILEY, KANSAS
WATER UTILITY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		
	Actual	Budget	Variance Over (Under)
Cash Receipts			
Charges for Services	\$ 321,022.06	\$ 305,000.00	\$ 16,022.06
Miscellaneous	961.64	1,750.00	(788.36)
Water Deposits	2,850.00	0.00	2,850.00
Total Cash Receipts	<u>324,833.70</u>	<u>\$ 306,750.00</u>	<u>\$ 18,083.70</u>
Expenditures			
Personal Services	62,465.45	81,500.00	(19,034.55)
Contractual Services	4,888.56	5,400.00	(511.44)
Commodities	50,279.26	36,441.00	13,838.26
Capital Outlay	8,893.21	82,745.00	(73,851.79)
Trash Service	56,461.50	64,000.00	(7,538.50)
Lease Payment	0.00	13,026.00	(13,026.00)
Water Protection Fee	2,164.40	1,800.00	364.40
Transfer to Bond & Interest	111,503.35	117,588.00	(6,084.65)
Transfer to Water System Maint & Repl	4,200.00	4,200.00	0.00
Miscellaneous	0.00	2,500.00	(2,500.00)
Water Deposits	12,225.00	0.00	12,225.00
Total Expenditures	<u>313,080.73</u>	<u>\$ 409,200.00</u>	<u>\$ (96,119.27)</u>
Receipts Over (Under) Expenditures	11,752.97		
Unencumbered Cash, Beginning	<u>180,707.74</u>		
Unencumbered Cash, Ending	<u>\$ 192,460.71</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF RILEY, KANSAS
WATER SYSTEM MAINTENANCE & REPLACEMENT FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Transfer from Water Utility	\$ 4,200.00	\$ 4,200.00	\$ 0.00
Total Cash Receipts	<u>4,200.00</u>	<u>\$ 4,200.00</u>	<u>\$ 0.00</u>
Expenditures			
Contractual	<u>0.00</u>	<u>25,200.00</u>	<u>(25,200.00)</u>
Total Expenditures	<u>0.00</u>	<u>\$ 25,200.00</u>	<u>\$ (25,200.00)</u>
Receipts Over (Under) Expenditures	4,200.00		
Unencumbered Cash, Beginning	<u>21,000.00</u>		
Unencumbered Cash, Ending	<u>\$ 25,200.00</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF RILEY, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Riley, Kansas is a municipal corporation governed by an elected six-member council. A primary government is a legal entity or public politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. The City of Riley, Kansas has no component units as of December 31, 2011.

B. FUND ACCOUNTING

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the City of Riley, Kansas for the year ended December 31, 2011:

GOVERNMENTAL FUNDS

General Fund--to account for all unrestricted resources except those required to be accounted for in another fund.

Special Revenue Funds--to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are restricted by law or administrative action to expenditure for specified purposes.

Debt Service Funds--to account for the accumulation of resources for, and the payment of, interest and principal on general long-term debt, and the financing of special assessments which are general obligations of the City of Riley, Kansas.

Capital Projects Funds--to account for financial resources to be used for the acquisition or construction of major capital facilities.

PROPRIETARY FUNDS:

Enterprise Funds--to account for operations that are financed and operated in a manner similar to private business enterprises--where the stated intent is that the costs (expenses), including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges--or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. BASIS OF ACCOUNTING

Statutory Basis of Accounting: The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The municipality has approved a charter ordinance that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

Departure from Accounting Principles Generally Accepted in the United States of America: The basis of accounting described above results in a financial statement presentation, which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the municipality are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

D. CASH AND INVESTMENTS

Cash balances from all funds are combined and invested to the extent available. Cash and investments consist of interest bearing checking accounts and money market accounts. Earnings from these investments are allocated to designated funds. Cash and investments are stated at cost.

E. COMPENSATED ABSENCES

Sick Leave Policy:

After 3 months, full-time employees will accrue sick leave at a rate of 8 hours per month with a maximum accumulation of 480 hours. Employees with ten plus years of continuous service who leave in good standing shall receive half of their accumulated sick leave not to exceed 30 days. Due to the uncertainty in predicting who will qualify to have their sick leave paid out no estimate is being made.

Vacation Policy:

Full-time employees are eligible for paid vacation after a period of 3 months from their start date. They will accrue vacation leave at a rate of 8 hours per month. The maximum paid vacation they can accumulate is 80 hours and upon termination, shall be paid for any unused leave in their final paycheck.

As of December 31, 2011 and 2010 the liability for unused vacation leave was \$3,822.56 and \$4,275.94, respectively, which is a net change of \$453.38.

F. TOTAL COLUMNS (MEMORANDUM ONLY)

Total Columns on the Summary of Receipts, Expenditures and Unencumbered Cash are captioned "Memorandum Only" to indicate that they are presented only to aid in financial analysis. Interfund eliminations have not been made in the aggregation of this data; and it is, therefore, not comparable to a consolidation.

G. AD VALOREM TAX REVENUE

The determination of assessed valuation and the collection of property taxes for all political subdivisions in the State of Kansas are the responsibility of the various counties. The County Appraiser annually determines assessed valuation and the County Clerk spreads the annual assessment on the tax rolls. One-half of the property taxes are due December 20 and distributed to the City by January 20. The second half is due May 10 and distributed to the City by June 5. The City Treasurer draws available funds from the County Treasurer at designated times throughout the year.

H. REIMBURSED EXPENSES

The City records reimbursable expenditures (or expense) in the fund that makes the disbursement and records reimbursements as revenue to the fund. For purposes of budgetary comparisons, the expenditures (or expenses) are properly offset by the reimbursements.

I. USE OF ESTIMATES

The preparation of financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2 - BUDGETARY INFORMATION

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments during the year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

Note 2 - BUDGETARY INFORMATION (Cont'd.)

Adjustment for Qualifying Budget Credits: Cities may use this line item for any budgeted fund. The adjustment would be a positive amount. All budget adjustments must be authorized by Kansas statutes. Examples include: expenditure of federal grant monies, reimbursements, gifts and donations and receipts authorized by law to be spent as if they were reimbursed expenses.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital projects funds, reserve funds, fiduciary funds and permanent funds.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

Note 3 - COMPLIANCE WITH KANSAS STATUTES

1. Interest was not credited or paid on utility deposits held by the City in violation of K.S.A. 12-822.

Management is aware of no other statutory violations for the period covered by the audit.

Note 4 - DEPOSITS

K.S.A. 9-1401 established the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the bank to pledge securities for deposits in excess of FDIC Coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investments of idle funds to time deposits, open accounts, and certificates of deposit with the allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Concentration of Credit Risk: State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial Credit Risk - Deposits: Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance, bank guarantee bonds, or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. There were no designated "peak periods" during the year. All deposits were legally secured at December 31, 2011.

At December 31, 2011 the City's carrying amount of deposits was \$558,474.46 and the bank balance was \$593,198.11. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$263,504.56 was covered by federal depository insurance, and \$329,693.55 was collateralized with securities held by the pledging financial institution's agents in the City's name.

Note 5 - LONG TERM DEBT

Changes in long-term liabilities for the municipality for the year ended December 31, 2011, were as follows:

<u>Issue</u>	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>
General Obligation Bond:				
To be paid with tax levys:				
Bond Series 1998A	4.15-5.10%	7/01/1998	\$ 90,000.00	9/1/2019
Bond Series 2006A	4.55-5.00%	1/01/2006	162,000.00	9/1/2026
Bond Series 2008A	4.00-5.90%	9/01/2008	250,000.00	9/1/2028
Bond Series 2010A	3.50%	9/01/2010	613,000.00	9/1/2031
KDHE Loans:				
To be paid with tax levys & utility revenues:				
Kansas Water Pollution Control				
Revolving Fund	2.77%	5/19/2004	698,296.11	3/1/2025
Kansas Water Supply Loan	4.04%	6/04/2009	832,124.27	8/1/2030
Capital Lease:				
To be paid with tax levys & utility revenues:				
Backhoe Lease	4.15%	2/22/2007	57,000.00	2/22/2012
Fire truck Lease	5.00%	7/11/2007	50,423.40	7/15/2012
Fire Station Lease	5.50%	8/15/2007	85,000.00	7/15/2017
Total Contractual Indebtedness				
Compensated Absences				
Total Long-Term Debt				

Balance Beginning of Year	Additions	Reductions / Payments	Net Change	Balance End of Year	Interest Paid
\$ 51,000.00	\$ 0.00	\$ 5,000.00		\$ 46,000.00	\$ 2,507.50
143,000.00	0.00	6,000.00		137,000.00	6,552.00
226,000.00	0.00	12,000.00		214,000.00	10,852.50
613,000.00	0.00	0.00		613,000.00	0.00
540,336.94	0.00	30,746.08		509,590.86	14,755.88
766,366.99	65,757.28	35,870.92		796,253.35	30,130.47
18,576.79	0.00	12,241.50		6,335.29	784.04
21,691.21	0.00	10,579.36		11,111.85	952.10
62,165.19	0.00	8,003.34		54,161.85	3,056.62
2,442,137.12	65,757.28	120,441.20		2,387,453.20	69,591.11
4,275.94			(453.38)	3,822.56	
<u>\$ 2,446,413.06</u>	<u>\$ 65,757.28</u>	<u>\$ 120,441.20</u>	<u>\$ (453.38)</u>	<u>\$ 2,391,275.76</u>	<u>\$ 69,591.11</u>

Note 5 - LONG TERM DEBT (Cont'd.)

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	12/31/2012	12/31/2013	12/31/2014
PRINCIPAL:			
General Obligation Bond:			
To be paid with tax levys:			
Bond Series 1998A	\$ 5,000.00	\$ 5,000.00	\$ 5,000.00
Bond Series 2006A	7,000.00	7,000.00	7,000.00
Bond Series 2008A	12,000.00	12,000.00	12,000.00
Bond Series 2010A	18,000.00	20,000.00	25,000.00
KDHE Loans:			
To be paid with tax levys & utility revenues:			
Kansas Water Pollution Control			
Revolving Fund	31,603.65	32,485.13	33,391.20
Kansas Water Supply Loan	28,548.94	29,713.95	30,926.53
Capital Lease:			
To be paid with tax levys & utility revenues:			
Backhoe Lease	6,335.29	0.00	0.00
Fire truck Lease	11,111.85	0.00	0.00
Fire Station Lease	8,239.52	8,710.22	9,199.25
TOTAL PRINCIPAL	127,839.25	114,909.30	122,516.98
INTEREST:			
General Obligation Bond:			
To be paid with tax levys:			
Bond Series 1998A	2,272.50	2,035.00	1,795.00
Bond Series 2006A	6,252.00	5,930.00	5,608.00
Bond Series 2008A	10,144.50	9,436.50	8,728.50
Bond Series 2010A	42,910.00	20,825.00	20,125.00
KDHE Loans:			
To be paid with tax levys & utility revenues:			
Kansas Water Pollution Control			
Revolving Fund	13,898.31	13,016.83	12,110.76
Kansas Water Supply Loan	31,893.16	30,728.55	29,516.40
Capital Lease:			
To be paid with tax levys & utility revenues:			
Backhoe Lease	158.63	0.00	0.00
Fire truck Lease	418.46	0.00	0.00
Fire Station Lease	2,820.44	2,349.74	1,860.71
TOTAL INTEREST	110,768.00	84,321.62	79,744.37
TOTAL PRINCIPAL & INTEREST	\$ 238,607.25	\$ 199,230.92	\$ 202,261.35

12/31/2015	12/31/2016	12/31/2017 - 12/31/2021	12/31/2022 - 12/31/2026	12/31/2027 - 12/31/2031	Total
\$ 5,000.00	\$ 6,000.00	\$ 20,000.00	\$ 0.00	\$ 0.00	\$ 46,000.00
8,000.00	8,000.00	45,000.00	55,000.00	0.00	137,000.00
12,000.00	12,000.00	63,000.00	65,000.00	26,000.00	214,000.00
25,000.00	25,000.00	140,000.00	165,000.00	195,000.00	613,000.00
34,322.55	35,279.86	191,720.15	150,788.32	0.00	509,590.86
32,188.57	33,502.13	189,168.49	231,047.86	221,156.88	796,253.35
0.00	0.00	0.00	0.00	0.00	6,335.29
0.00	0.00	0.00	0.00	0.00	11,111.85
9,715.75	10,258.78	8,038.33	0.00	0.00	54,161.85
<u>126,226.87</u>	<u>130,040.77</u>	<u>656,926.97</u>	<u>666,836.18</u>	<u>442,156.88</u>	<u>2,387,453.20</u>
1,552.50	1,307.50	1,899.50	0.00	0.00	10,862.00
5,286.00	4,918.00	18,837.00	7,780.50	0.00	54,611.50
8,020.50	7,540.50	30,157.50	25,665.00	1,891.50	101,584.50
19,250.00	18,375.00	78,225.00	51,975.00	20,825.00	272,510.00
11,179.43	9,299.53	32,559.57	7,704.24	0.00	99,768.67
28,254.80	24,596.93	103,203.10	64,951.88	18,789.79	331,934.61
0.00	0.00	0.00	0.00	0.00	158.63
0.00	0.00	0.00	0.00	0.00	418.46
1,344.21	801.18	222.76	0.00	0.00	9,399.04
<u>74,887.44</u>	<u>66,838.64</u>	<u>265,104.43</u>	<u>158,076.62</u>	<u>41,506.29</u>	<u>881,247.41</u>
<u>\$ 201,114.31</u>	<u>\$ 196,879.41</u>	<u>\$ 922,031.40</u>	<u>\$ 824,912.80</u>	<u>\$ 483,663.17</u>	<u>\$ 3,268,700.61</u>

Note 6 - INTERFUND TRANSACTIONS

<u>From</u>	<u>To</u>	<u>Statutory Authority</u>	<u>Amount</u>
Bergsten Development	Bond & Interest	Close Fund	\$ 22,871.18
Water Utility	Bond & Interest	K.S.A. 12-825d	111,503.35
Water Utility	Water System Maint & Repair	K.S.A. 12-825d	4,200.00
Library	Library Capital Improvement	K.S.A. 12-1,118	1,400.00

Note 7 - DEFINED BENEFIT PENSION PLAN

Plan description. The City of Riley contributes to the Kansas Public Employees Retirement System (KPERS) a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Ave., Suite 100; Topeka, KS 66603-3803) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve bases. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established for calendar year 2011 is 7.74%. The City of Riley employer contributions to KPERS for the years ending December 31, 2011, 2010, and 2009 were \$8,232.68, \$7,116.59, and \$5,499.73, respectively, equal to the required contributions for each year.

Note 8 - OTHER POST EMPLOYMENT BENEFITS

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the City under this program.

Note 9 - RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; thefts of, damages to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City obtains coverage from commercial insurance companies in order to effectively manage risk. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years. The City does not participate in a public entity risk pool.

Note 10 - SUBSEQUENT EVENTS

The City has evaluated events subsequent to year end through June 15, 2012, and does not believe any events have occurred which effect the financial statements as presented.

Note 11 - CAPITAL PROJECT FUNDS

At year-end, capital project authorizations, by fund, compared with expenditures from inception are as follows:

Fox Run Development

<u>Description</u>	<u>Expenditures to Date</u>	<u>Project Authorization</u>
Street, Water Main and Sanitary Sewer Improvements	\$ 557,200.72	\$ 704,254.09

Bergsten Development

<u>Description</u>	<u>Expenditures to Date</u>	<u>Project Authorization</u>
Street, Water Main and Sanitary Sewer Improvements	\$ 237,349.81	\$ 334,790.00

Kansas Public Water Supply Loan Fund

<u>Description</u>	<u>Expenditures to Date</u>	<u>Project Authorization</u>
Public Water System Replacement Project	\$ 1,232,435.77	\$ 1,375,500.00

Kansas Small Towns Environment Program Fund

<u>Description</u>	<u>Expenditures to Date</u>	<u>Project Authorization</u>
Construction of a Combined Use City Building	\$ 73,911.57	\$ 299,932.00